DE 98-124

NORTHERN UTILITIES, INC.

Gas Restructuring

Order Addressing Supplier Fees, Supplier Service Agreement, and Capacity Allocators

O R D E R N O. 23,823

November 1, 2001

I. PROCEDURAL HISTORY

On July 8, 1998, the New Hampshire Public Utilities Commission (Commission) issued an Order of Notice opening docket DE 98-124 to address issues concerning unbundling and competition in the natural gas industry. On September 14, 1998, the Commission authorized the formation of a collaborative (Collaborative)[1] to investigate the merits of further restructuring the provision of natural gas service in New Hampshire.

On March 10, 2000, EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England (KeySpan), Northern Utilities, Inc. (Northern), the Office of the Consumer Advocate (OCA), and the Staff of the Commission (Staff) filed the *New Hampshire Gas Collaborative Final Report* (Report) with the Commission. The Report included recommendations for

[1] The Collaborative was open to, and consisted of, all intervenors and Staff in Docket DE 98-124. For a complete list of intervenors, see Order No. 23,652 (March 15, 2001).

expanding competition in the commercial and industrial (C&I) sector and a model tariff for natural gas delivery service (Model Delivery Tariff).

On March 15, 2001, the Commission issued Order No. 23,652 accepting and approving the Report. KeySpan and Northern were ordered to incorporate the Model Delivery Tariff into their existing general tariffs. Further, the Report provided:

> The Appendices to the model delivery tariff require cost information that will be developed as part of the rate redesign filings that the LDCs are currently preparing. Appendix A to the model delivery tariff is intended to be a Schedule of Administrative Fees and Charges. The fees and charges being proposed by the LDCs will be filed 90 days prior to the effective date for implementation. Similarly, the information required for Appendix B (Supplier Service Agreement) and Appendix C (Capacity Allocators) will be filed 90 days prior to the effective date. All parties and the Commission will then have an opportunity to review the filings before they become effective.

On July 26, 2001, Northern submitted a request for extension of time to comply with provisions of Commission Order No. 23,652 pertaining to the portion of the Model Delivery Tariff regarding Schedule of Administrative Fees and Charges as well as Capacity Allocators to be included in Northern’s tariff. On August 1, 2001, Northern submitted a subsequent request for extension of time to comply with provisions of the same Commission Order pertaining to Supplier Service Agreement tariff revisions. Northern requested an extension of time to file the Supplier Service Agreement until August 17, 2001, the date Northern intended to file its entire tariff. As with the extension request regarding the Schedule of Administrative Fees and Charges and the Capacity Allocators, Northern asserted the extension would not delay full implementation of Order No. 23,652 on November 1, 2001. On August 2, 2001, the Commission granted Northern's extension requests.

On August 17, 2001, Northern filed its Supplier Service Agreement, Appendix B. On August 27, 2001, Northern filed its Schedule of Administrative Fees and Charges and Capacity Allocators, Appendices A and C, respectively. On September 25, 2001, Staff convened a meeting of the Collaborative to discuss the filings. On October 31, 2001, Northern filed revised Appendices A, B and C to reflect certain changes based on discussions held with Staff.

Northern's Schedule of Administrative Fees and Charges includes: a Supplier Balancing Charge of $0.0710 per therm of daily imbalance volumes; a marketer Pool Administration Fee of $0.10 per customer per month in non-daily metered pools; billing fees of $0.60 and $1.50 per customer per month for Passthrough Billing and Complete Billing, respectively; and a marketer Customer Administration fee of $10 per customer switching from another marketer or from pool to pool. Northern also intends to offer Capacity Mitigation Service pursuant to the Model Delivery Tariff at fifteen percent (15%) of the pro-rata share of the proceeds earned from the marketing of capacity contracts.

In its filing, Northern states that the purpose of the Supplier Balancing Charge is to recover a portion of the costs associated with Northern's balancing resources from suppliers taking Non-Daily Metered Service on behalf of their customers. Northern provides a balancing service to suppliers by managing the daily imbalance volumes quantified as the difference between the sum of Non-Daily Metered customers' Adjusted Target Volumes (ATVs), which are based on the forecast of Effective Degree Days (EDDs), and the sum of customers' daily requirements based on actual EDDs applied to Northern's algorithms. Northern states that since suppliers are not assessed any other balancing charge as long as they deliver the scheduled nominations per the ATVs, the Supplier Balancing Charge is the only compensation for managing those daily swings. Also, since the costs associated with Northern's balancing resources are recovered through the Cost of Gas (COG) clause, all revenues recovered via the assessment of the Supplier Balancing Charge will be credited to the COG.

Northern proposed Capacity Mitigation Service in accordance with the Model Delivery Tariff which reads:

> Capacity Mitigation Service is available to Suppliers that have been assigned Capacity pursuant to Section 11 of this tariff. Such Suppliers shall have the option to take Capacity Mitigation Service from the Company for contracts that would otherwise be released to the Supplier in accordance with this tariff... The Company will market Capacity contracts designated by Suppliers for mitigation through the Capacity Mitigation Service. The Supplier shall receive a credit on its bill for Capacity Mitigation Service equal to the pro-rata share of the proceeds earned from the Company in exchange for such contract management.

Northern proposed to earn fifteen percent (15%) of the proceeds earned from the marketing of capacity contracts. This pro-rata share is the same as proposed by KeySpan for its Capacity Mitigation Service and, therefore, would be consistent for all natural gas suppliers in New Hampshire.

Regarding additional supplier fees, Northern stated that it is important to establish supplier services and associated cost recovery mechanisms for as many of the anticipated incremental activities brought on by the new delivery service terms and conditions as is reasonably feasible to ensure that the costs associated with such services are borne by the suppliers serving those customers who are benefitting from them. Further, Northern believes it is critical to establish services that are either essential for or desired by suppliers to serve customers. Accordingly, Northern established many of the baseline fees/services (those that would essentially be required for any supplier doing business on its system) into a proposed category that is being referred to as Pool Administration and are cost-based in nature. Other proposed fees/services which are optional, such as billing services, may be subject to more of a market/price-based structure, since marketers will have the ability to seek alternative sources for such services.

Northern also filed its Capacity Allocators for the period November 1, 2001 through October 31, 2002. The Capacity Allocators are used under mandatory capacity assignment to allocate the costs of each unit of assigned capacity between Pipeline Capacity, Storage Withdrawal Capacity, and Peaking Capacity, in order to determine the appropriate price for each type of capacity. The Capacity Allocators were developed by segregating C&I demand into base use and remaining design day demand. Relative base use is the allocator for pipeline costs, and relative remaining design day use is the allocator for storage and peaking cost. This method is consistent with the gas cost allocation method implicit in Northern's revised Cost of Gas clause emanating from its rate redesign docket, DG 00-046, Order No. 23,674 (April 5, 2001). Northern proposed the following Capacity Allocators:

COMMERCIAL AND INDUSTRIAL		
	High Winter Use	**Low Winter Use**
Pipeline	18.47%	40.35%
Storage	33.21%	24.30%
Peaking	48.32%	35.36%

On October 31, 2001, Staff filed with the Commission a memorandum containing Staff's recommendation regarding Northern's Schedule of Administrative Fees and Charges, Supplier Service Agreement and Capacity Allocators. Staff stated that it had reviewed the original and revised appendices. Staff recommended that the Commission approve the revised Appendices, finding them to be consistent with the approved Model Delivery Tariff and Northern's revised Cost of Gas clause, where applicable. Staff stated that it will continue to review the supplier fees and charges, as well as the Supplier Service Agreement, to assess their impact on emerging competition and suppliers' willingness to participate in further gas competition in New Hampshire.

II. COMMISSION ANALYSIS

We have reviewed Northern's filings and Staff's recommendation. We will approve Northern's revised Schedule of Administrative Fees and Charges, Supplier Service Agreement and Capacity Allocators, as filed on October 31, 2001. We note that Northern revised its Schedule of Administrative Fees and Charges and Supplier Service Agreement to address concerns raised by Staff during its review of the original submittals and that the revised Capacity Allocators correct a calculation error which Northern accurately described in its narrative regarding the derivation of the Capacity Allocators. In the absence of a more extensive cost allocation investigation, the use of allocators previously approved is reasonable.

The Model Delivery Tariff approved by the Commission in Order No. 23,652 requires a supplier to enter into a Supplier Service Agreement with Northern prior to the initiation of supplier service. Northern's Supplier Service Agreement is intended to be consistent with Northern's tariff. However, to the extent the terms and conditions of the Supplier Service Agreement are inconsistent with Northern's tariff, the terms of the tariff shall control.

The retention of 15 percent of the gross proceeds from sales of assigned capacity turned back to the Company while on the high side, is a reasonable sharing of the proceeds, to give the Company an incentive to maximize the proceeds of such sales.

It is important to identify that the issue presently before us is how the fees will be calculated. In Order No. 23,652, we addressed whether the services are appropriate. As Northern described, it approached calculating fees differently depending upon whether the service was required or optional by the supplier. Those services required by the supplier are primarily cost-based and those services which are optional to the supplier are more market-based. We believe that Northern's attempt to differentiate its services and apply different pricing mechanisms is a good starting point for establishing fees for New Hampshire's gas suppliers. In order to monitor the development of competition, and the reasonableness of the fees proposed in this docket, we will require Northern to track its costs for the services previously described and participation in those services competitively priced.

Based upon the foregoing, it is hereby

ORDERED, that Northern's Schedule of Administrative

Fees and Charges, Supplier Service Agreement and Capacity Allocators, Appendices A, B and C to the Model Delivery Tariff respectively, as filed on October 31, 2001, are APPROVED effective November 1, 2001; and it is

FURTHER ORDERED, that Northern shall track its costs for the services described above and participation in those services competitively priced; and it is

FURTHER ORDERED, that Northern shall file properly annotated tariff pages with the Commission within 14 days of the date of this order in accordance with N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New Hampshire this first day of November, 2001.

Thomas B. Getz Chairman	Susan S. Geiger Commissioner	Nancy Brockway Commissioner

Attested by:

Claire D. DiCicco
Assistant Secretary